

Calculating Rate Increases

1. Determine average percentage of direct service (DS) cost for each category using survey. For example, service category #1 is 80% DS and category #2 is 70% DS.
2. Apply these percentages to total expenditures for all providers in each category to determine total DS cost.
 - a. Category #1 total expenditures = \$1,000,000,000
 - i. Multiply by 80% = \$800,000,000 in total DS costs
 - b. Category #2 total expenditures = \$1,000,000,000
 - i. Multiply by 70% = \$700,000,000 in total DS costs
3. Total DS costs for all categories (\$800 M + \$700 M = \$1.5 billion)
4. Determine percent increase for DS costs which will apply to all categories equally.
 - a. Divide amount available for DS increase by total DS costs. Example $\$150,000,000 / \$1,500,000,000 = 10\%$
5. Determine overall service rate increase for each category by multiplying percent increase for DS by percentage of DS costs
 - a. Category #1 – $10\% \times 80\% = 8\%$
 - b. Category #2 – $10\% \times 70\% = 7\%$
6. Another way to look at it is to determine the dollar amount needed for a 10% increase for DS in each category.

Service Category	Total Expenditures	DS Costs	DS Increase	Rate increase (DS increase/total expenditures)
Category 1	\$1,000,000,000	\$800,000,000	\$80,000,000	8%
Category 2	\$1,000,000,000	\$700,000,000	\$70,000,000	7%